



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

September 29, 1982

Circular No. A-50
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit Followup

1. Purpose. This Circular provides the policies and procedures for use by executive agencies when considering reports issued by the Inspectors General (IGs), other executive branch audit organizations, the General Accounting Office (GAO), and non-Federal auditors where followup is necessary.

2. Rescissions. This revision replaces and rescinds Circular No. A-50, "Executive branch action on General Accounting Office reports," Revised, dated January 15, 1979, and incorporates certain provisions previously set forth in Circular A-73, "Audit of Federal operations and programs," Revised, dated November 27, 1979.

3. Authority.

- a. Budget and Accounting Act of 1921, as amended (31 USC 16 & 53).
- b. Section 236 of the Legislative Reorganization Act of 1970.
- c. Supplemental Appropriations and Rescissions Act of 1980 (P.L. 96-304).
- d. Appropriations Act of 1981 (P.L. 96-526).
- e. 4 CFR 101-105, Federal Claims Collection Standards.
- f. GAO Policy and Procedures Manual for Guidance of Federal Agencies (Title 2-Accounting).

4. Background. The principal objectives of this revision are:

- a. To specify the role of the designated audit followup officials, and the role of Inspectors General with regard to audit followup.
- b. To strengthen the procedures for resolution of audit findings and corrective action on recommendations contained in audit reports issued by IGs, other audit organizations, and the GAO.

c. To clarify the applicability of the Circular to regulatory and preaward audits.

d. To emphasize the importance of monitoring the implementation of resolved audit recommendations in order to assure that promised corrective action is actually taken.

e. To improve accounting and collection controls over amounts due the Government as a result of claims arising from audits.

5. Policy. Audit followup is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

6. Definitions.

a. Responses to Audit Reports -- Written comments by agency officials indicating agreement or disagreement on reported findings and recommendations. Comments indicating agreement on final reports shall include planned corrective actions and, where appropriate, dates for achieving actions. Comments indicating disagreement shall explain fully the reasons for disagreement. Where disagreement is based on interpretation of law, regulation, or the authority of officials to take or not take action, the response must include the legal basis.

b. Resolution.

(1) For most audits, the point at which the audit organization and agency management or contracting officials agree on action to be taken on reported findings and recommendations; or, in the event of disagreement, the point at which the audit followup official determines the matter to be resolved. A report may be considered resolved despite the right of persons outside the agency to negotiate, appeal, or litigate. Resolution of a report with respect to parties outside the Government does not preclude further consideration of issues in the report by agency management.

(2) For preaward contract audits, the point at which agreement is reached, a contract price negotiated, or proposed award cancelled, whichever occurs first.

(3) For GAO reports, the point at which the agency responds to the Congress, as required by the Legislative Reorganization Act of 1970.

c. Corrective Action -- Measures taken to implement resolved audit findings and recommendations.

d. Disallowed Costs -- An incurred cost questioned by the audit organization that management has agreed should not be charged to the Government.

7. Responsibilities.

a. Agency Head. Agency heads are responsible for:

(1) Designating a top management official to oversee audit followup, including resolution and corrective action.

(2) Assuring that management officials throughout the agency understand the value of the audit process and are responsive to audit recommendations.

b. Management Officials. Agency management officials are responsible for receiving and analyzing audit reports, providing timely responses to the audit organization, and taking corrective action where appropriate. Where management officials disagree with an audit recommendation, the matter shall be resolved by a higher level management official or by the followup official.

c. Audit Followup Official. The audit followup official has personal responsibility for ensuring that (1) systems of audit followup, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) disagreements are resolved, (4) corrective actions are actually taken, and (5) semi-annual reports required by paragraph 8.a.(8) below are sent to the head of the agency.

d. Inspectors General. Inspectors General or other audit officials are responsible for (1) making independent audits and investigations of their agencies' programs, operations, activities, and functions; (2) overseeing the work of non-Federal auditors performed in connection with Federal programs; and (3) reviewing responses to audit reports and reporting significant disagreements to the audit followup official.

e. Comptroller General. The Comptroller General is the head of the GAO, a legislative branch agency responsible for auditing and evaluating programs, activities, and financial operations of the executive branch.

8. Action Requirements.

a. Follow-up Systems. Agencies shall assign high priority to the resolution of audit recommendations and to corrective action. Systems for resolution and corrective action must meet the following standards:

(1) Provide for appointment of a top level audit followup official.

(2) Require prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of six months after issuance of a final report or, in the case of audits performed by non-Federal auditors, six months after receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible.

(3) Specify criteria for proper resolution and corrective action on audit recommendations, whether resolution is in favor of the auditor or an auditee. These criteria should provide for written plans for corrective action with specified action dates, where appropriate.

(4) Maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action. Such records shall include appropriate accounting and collection controls over amounts determined to be due the Government.

(5) Provide a means to assure timely responses to audit reports and to resolve major disagreements between the audit organization and agency management or contracting officials. The process should provide sufficient time to permit resolution to take place within the six month limit.

(6) Assure that resolution actions are consistent with law, regulation, and Administration policy; and include written justification containing, when applicable, the legal basis for decisions not agreeing with the audit recommendation.

(7) Provide for coordinating resolution and corrective action on recommendations involving more than one program, agency, or level of Government.

(8) Provide semi-annual reports to the agency head on the status of all unresolved audit reports over six months old, the reasons therefor, and a timetable for their resolution; the number of reports or recommendations resolved during the period; the amount of disallowed costs; and collections, offsets, write-offs, demands for payment and other monetary benefits resulting from audits. These reports should include an update on the status of previously reported unresolved audits.

(9) Provide for periodic analysis of audit recommendations, resolution, and corrective action, to determine trends and system-wide problems, and to recommend solutions.

(10) Assure that performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.

(11) Provide for an evaluation of whether the audit followup system results in efficient, prompt, and proper resolution and corrective action on audit recommendations. The first evaluation will be made within one year of the date of this Circular, and evaluations will be made periodically thereafter.

b. Special Requirements. The following additional requirements apply to General Accounting Office reports:

(1) Draft Reports. The GAO normally issues draft reports to agencies for their review and comment, so that final reports may incorporate agency views. In accordance with 31 USC 53(f)(1), agencies shall provide comments on draft GAO reports within 30 days of issuance. However, the law provides that, if an agency cannot respond to a report within 30 days, the agency may request additional time from GAO to comment.

(2) Final Reports. The GAO issues final reports to the Congress or the head of an agency. Agencies are required to respond to these reports in accordance with instructions contained in paragraphs (3) and (4) below.

(3) Statements to the Office of Management and Budget. The agency head will submit a statement to the Director of OMB within 60 calendar days after formal transmittal of a GAO report to the agency when at least one of the following applies:

(a) The report contains a specific recommendation for the head of the agency;

(b) The report contains financial statements accompanied by either a qualified audit opinion or a disclaimer of opinion;

(c) The report indicates a violation of the Antideficiency Act which has not been reported to the appropriate authorities;

(d) The report indicates a violation of other laws;

or

(e) When requested to comment by OMB.

The agency statement should identify the GAO report by number and date (i.e., GAO/GGD-82-00, dated January 30, 1982), and be submitted in duplicate. It should inform the OMB of the agency views on the findings and recommendations made by the GAO. It should also identify any action taken, or planned, in response to each significant finding or recommendation.

If the agency response to a draft GAO report accurately and adequately reflects its current views, a copy of those comments will be sufficient.

When corrective action is incomplete, still under study, or planned, the agency will include a statement of when it expects action to be completed, and will report on corrective action after it is completed.

The agency should include in its statement to OMB copies of statements required by Section 236 of the Legislative Reorganization Act of 1970. See paragraph (4) below. These statements may be used to satisfy the initial reporting requirements to OMB. The statements should be accompanied by any additional information not provided to the Congress, but required by this section of the Circular.

(4) Statements to Congressional Committees. In accordance with Section 236 of the Legislative Reorganization Act of 1970, when a GAO report contains recommendations to the head of an agency, the agency shall:

(a) Submit a written statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations, no later than 60 days after the date of such report. This statement will report the action taken or to be taken by the agency with respect to the recommendations to the head of the agency.

(b) Submit a written statement to the Committees on Appropriations of the Senate and the House of Representatives, in connection with the first request for appropriations for that agency submitted to the Congress more than 60 days after the date of the GAO report. This statement will report the action taken or to be taken by the agency with respect to the recommendations to the head of the agency.

Two copies of the above statements will be submitted on the same date to the OMB and the GAO.

(5) Advance Clearance and/or Coordination Requirements. Agency statements to Congressional committees, individual Members of Congress or the GAO, will be subject to advance coordination and/or clearance by OMB when the statement:

(1) Expresses views on proposed or pending legislation. See Circular A-19, "Legislative coordination and clearance."

(2) Deals with other agencies, or with executive branch budget policies.

Requests for advance clearance and/or coordination will be addressed to the Director, OMB, and will be forwarded in duplicate. Clearance action will be completed prior to transmittal of the statement.

9. Applicability to Regulatory Audits. The requirements for resolution and corrective action contained in paragraph 8.a. shall be applied to those reports of agency units responsible for regulatory or inspection activities involving the review of financial matters that may result in:

(a) Fines or penalties;

(b) Assessments or price adjustments; or

(c) Other monetary recoveries by the Government.

The agency audit followup official shall ensure that appropriate followup systems are in place for these units. Separate subsystems may be used.

10. Applicability to Preaward Contract Audits. Audit reports involving recommendations on contractor estimates of future costs are subject to the provisions of this Circular. However, since such reports generally are resolved by negotiation of a contract price, they are not subject to the time limits or reporting requirements set forth in paragraphs 8.a.(2), (5), and (8). The requirement for records on the status of reports set forth in paragraph 8.a.(4) may be met by records maintained in official contract files.

11. Accounting and Collection Controls. In order to ensure effective recovery action, each agency will establish accounting and collection controls for amounts due the Government as a result of resolved audit findings and recommendations. Unless otherwise required by statute, all claims arising from audit disallowances shall be collected in accordance with the Federal Claims Collection Standards.

(a) Recording Receivables. Amounts due the Government shall be recorded promptly as accounts receivable on completion of the acts which entitle an agency to collect such amounts. For example, on matters where the auditor has the authority to make final determinations, such determinations are to be recorded as receivables at the time the audit report is issued. Audit recommendations that are subject to management concurrence will be recorded as accounts receivable within 30 days of being resolved. The recording of the receivable is to be accomplished even though the decision to collect is subject to administrative appeal or litigation by persons outside the agency.

b. Interest Charges. Interest on audit-related debts shall begin to accrue no later than 30 days from the date the auditee is notified of the debt. To discourage unwarranted appeals, interest shall continue to accrue while an appeal is underway. The interest rate applied shall be that prescribed by the Treasury Fiscal Requirements Manual (I TFRM 6-8000).

c. Allowance for Uncollectable Amounts. Consideration shall be given to the potential for collecting audit-related debts. An allowance account shall be established to reflect the amount of receivables estimated to be uncollectable.

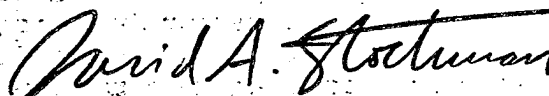
d. Payment of Debts. Procedures should be established to assure that the payment of audit-related debts does not result in charges to other Federal programs or in a reduced level of program activity.

e. Exception. There may be instances where a portion of the funds on a grant, contract, or other agreement are held back: (1) as a safeguard against overpayment; (2) pending completion, final inspection or approval of work; or (3) in accordance with other provisions of a grant or contract. In such instances, it is not necessary to record a receivable, since disallowed costs may be offset against undisbursed funds in the grant or contract audited.

12. OMB Responsibility. OMB will continue to work with agency audit followup officials and Inspectors General to ensure that the provisions of this Circular are implemented.

13. Information Contact. Inquiries should be directed to the OMB Financial Management Division at 395-3993 or to the OMB Debt Collection Staff at 395-3967.

14. Sunset Review Date. This Circular shall have an independent policy review to ascertain its effectiveness three years from the date of issue.



David A. Stockman
Director